

Agency Legislative Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Leg. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Leg. Budget Fiscal 2005	Total Leg. Budget Fiscal 04-05
FTE	69.50	2.00	0.00	71.50	2.00	0.00	71.50	71.50
Personal Services	2,715,801	426,777	23,051	3,165,629	423,128	98,096	3,237,025	6,402,654
Operating Expenses	790,438	236,527	0	1,026,965	310,994	0	1,101,432	2,128,397
Equipment	0	0	0	0	0	0	0	0
Transfers	0	0	700,963	700,963	0	659,600	659,600	1,360,563
Total Costs	\$3,506,239	\$663,304	\$724,014	\$4,893,557	\$734,122	\$757,696	\$4,998,057	\$9,891,614
General Fund	334,795	45,719	(380,514)	0	43,490	(378,285)	0	0
State/Other Special	3,171,444	617,585	1,104,528	4,893,557	690,632	1,135,981	4,998,057	9,891,614
Total Funds	\$3,506,239	\$663,304	\$724,014	\$4,893,557	\$734,122	\$757,696	\$4,998,057	\$9,891,614

Agency Description

The Office of the State Auditor is authorized under Article VI of the Montana Constitution. The State Auditor is the ex-officio Commissioner of Insurance and Securities and is responsible for licensing and regulating insurance companies and agents, and registering and regulating securities dealers in the state. The auditor also adopts rules and administers reform for the insurance and securities industries operating in the state.

Summary of Legislative Action

State Auditor's Office Major Budget Highlights	
<ul style="list-style-type: none"> o The legislature provided nearly \$1.4 million of tobacco settlement trust proceeds allocated by I-146 for the Montana Comprehensive Health Association o An additional \$1.5 million state special revenue was added to the fiscal 2002 base budget primarily for 2.00 new FTE, increased funding for contract examinations of insurance and investment companies, and to fund the HB 13 pay plan o A funding switch eliminates general fund, although there is no net change to the general fund o August 2002 Special Session reductions of about \$4,500 per year are continued o New requirements of the Securities Registration Department regarding portfolio filings is anticipated to increase securities fee revenue by about \$1.0 million per year 	

The total budget for the State Auditor's Office (SAO) includes almost \$1.4 million in present law adjustments and \$1.5 million in new proposals, for a net increase over the fiscal 2002 base of nearly \$2.9 million. More than half of the present law increases adopted by the legislature are attributed to statewide adjustments for personal services, inflation, and fixed costs. The remaining present law increases provide funding for 2.00 FTE, insurance and securities contract examinations, and a rent increase. The legislature continued the August 2002 Special Session reductions of about \$9,000 as a present law reduction.

Almost \$1.4 million of the new proposals are attributed to state special revenue provided by the legislature from tobacco settlement trust proceeds allocated by I-146 for the Montana Comprehensive Health Association (MCHA) (attached to the SAO). The remaining is attributed to funding of about \$120,000 provided by the legislature for the HB 13 pay plan. The

legislature replaced general fund in the agency with state special revenue from the securities fee account. Unspent monies in this account are transferred to the general fund, so the impact of this funding switch on the general fund is negligible.

Funding

The following table summarizes funding for the agency, by program and source, as adopted by the legislature.

Total Agency Funding 2005 Biennium Executive Budget			
Agency Program	State Spec.	Grand Total	Total %
Central Management	\$ 1,089,748	\$ 1,089,748	11.0%
Insurance	7,353,416	7,353,416	74.3%
Securities	<u>1,448,450</u>	<u>1,448,450</u>	<u>14.6%</u>
Grand Total	<u>\$ 9,891,614</u>	<u>\$ 9,891,614</u>	<u>100.0%</u>

Other Legislation

House Bill 169 - This bill revises insurance producer licensing laws and fees. Fee changes include increasing the non-resident continuing education fee from \$10 to \$25, changing the non-resident license renewal from an annual \$10 fee to a biennial \$50 fee, and implementing a license reinstatement fee for producers that let their licenses lapse. Revenue is anticipated to increase by \$270,000 over the biennium and be deposited into a state special revenue account to the credit of the SAO. The legislature did not appropriate these additional funds in HB 2.

Senate Bill 144 - This bill generally revises securities laws and requires an issuer to pay a \$50 fee for each filing made for the purpose of changing the name of a series, portfolio, or other subdivision of an investment company or similar issuer. The bill also allows the SAO to charge \$.50 per page for any photocopies requested for any document that is considered a matter of public record. Revenue is anticipated to increase by \$6,000 per year and be deposited into the state's general fund.

Senate Bill 254 - This bill establishes regulations for rental vehicle entities in regard to the sale of rental vehicle insurance and allows rental vehicle entities to obtain an insurance license as a business entity. The license issuance fee is a one-time fee of \$100 increasing state special revenue by \$6,000 over the biennium.

Agency Budget Comparison								
Budget Item	Base Budget Fiscal 2002	Executive Budget Fiscal 2004	Legislative Budget Fiscal 2004	Leg – Exec. Difference Fiscal 2004	Executive Budget Fiscal 2005	Legislative Budget Fiscal 2005	Leg – Exec. Difference Fiscal 2005	Biennium Difference Fiscal 04-05
FTE	69.50	73.50	71.50	(2.00)	73.50	71.50	(2.00)	
Personal Services	2,715,801	3,236,808	3,165,629	(71,179)	3,232,830	3,237,025	4,195	(66,984)
Operating Expenses	790,438	990,309	1,026,965	36,656	1,052,180	1,101,432	49,252	85,908
Equipment	0	0	0	0	0	0	0	0
Transfers	0	0	700,963	700,963	0	659,600	659,600	1,360,563
Total Costs	\$3,506,239	\$4,227,117	\$4,893,557	\$666,440	\$4,285,010	\$4,998,057	\$713,047	\$1,379,487
General Fund	334,795	0	0	0	0	0	0	0
State/Other Special	3,171,444	4,227,117	4,893,557	666,440	4,285,010	4,998,057	713,047	1,379,487
Total Funds	\$3,506,239	\$4,227,117	\$4,893,557	\$666,440	\$4,285,010	\$4,998,057	\$713,047	\$1,379,487

Executive Budget Comparison

The legislature approved a budget that is \$1.4 million, or 16.2 percent, above the amount recommended by the Governor for non-general fund. The difference is primarily attributed to the legislature adding nearly \$1.4 million of tobacco settlement trust proceeds allocated by I-146 for the MCHA. In addition, the legislature added about \$120,000 to fund the HB 13 pay plan and \$17,300 state special revenue for rented office space at the old Shodair Children's Hospital that was

inadvertently left out of the Executive Budget.

Governor recommendations not approved by the legislature include:

- o an additional \$230,000 state special revenue for 2.00 FTE market conduct insurance examiners
- o reductions of \$110,400 in the Securities Program to balance the budget

The 2.00 FTE market conduct examiners were not approved by the legislature because funding for such exams was also requested by the Governor and approved by the legislature under contracted services.

The legislature did not approve Governor recommended reductions in the Securities Program due to the State Auditor's intention to change requirements regarding securities filings by portfolio issuers and additional resources needed to manage impacts of the change. Portfolio issuers will be required to file at the class level (consistent with other states) rather than the portfolio level, which has been the practice in Montana since 1993. Filing at the class level will mean any portfolio that offers multiple classes would have to file for each specific class. This change is anticipated to nearly double the number of portfolio filings with the department, increasing portfolio revenue by at least \$1.0 million per year. Unspent collections from the securities fee account are deposited to the general fund. Based on the approved budget, the anticipated net increase to the general fund is approximately \$930,000 over the biennium.

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Leg. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Leg. Budget Fiscal 2005	Total Leg. Budget Fiscal 04-05
FTE	10.00	0.00	0.00	10.00	0.00	0.00	10.00	10.00
Personal Services	342,208	92,567	3,336	438,111	91,911	14,042	448,161	886,272
Operating Expenses	109,346	(5,629)	0	103,717	(9,587)	0	99,759	203,476
Total Costs	\$451,554	\$86,938	\$3,336	\$541,828	\$82,324	\$14,042	\$547,920	\$1,089,748
State/Other Special	451,554	86,938	3,336	541,828	82,324	14,042	547,920	1,089,748
Total Funds	\$451,554	\$86,938	\$3,336	\$541,828	\$82,324	\$14,042	\$547,920	\$1,089,748

Program Description

The Central Management Division is responsible for the administrative, personnel, budgeting, and accounting functions for the State Auditor's Office. The division also supports activities related to the Auditor's membership on the state land and hail insurance boards.

Program Narrative

State Auditor's Office Central Management Major Budget Highlights	
<ul style="list-style-type: none"> Statewide present law adjustments, primarily in personal services, increase funding by \$166,900 over the biennium Operating expenses decrease due to lower fixed costs in some categories and reallocating some to the insurance program Personal services increase 29 percent over base year expenditures due to annualization of the pay plan, full funding of FTE that were vacant during the base year, and the HB 13 pay plan 	

Funding

The following table shows program funding, by source, for the base year and the 2005 biennium.

Program Funding Table Central Management						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02235 Insurance Fee Account	\$ 434,490	96.2%	\$ 509,381	94.0%	\$ 515,102	94.0%
02283 Securities Fee Account	17,064	3.8%	32,447	6.0%	32,818	6.0%
Grand Total	\$ 451,554	100.0%	\$ 541,828	100.0%	\$ 547,920	100.0%

This program is funded from the insurance fee and securities fee accounts, which draw their revenue from percentages charged to the industry on the sale of insurance and securities in Montana.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					107,211					106,538
Vacancy Savings					(14,644)					(14,627)
Inflation/Deflation					529					590
Fixed Costs					(7,111)					(11,620)
Total Statewide Present Law Adjustments					\$85,985					\$80,881
DP 10 - Rent Increase										
	0.00	0	953	0	953	0.00	0	1,443	0	1,443
Total Other Present Law Adjustments	0.00	\$0	\$953	\$0	\$953	0.00	\$0	\$1,443	\$0	\$1,443
Grand Total All Present Law Adjustments					\$86,938					\$82,324

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 10 - Rent Increase - The legislature approved state special revenue funding to cover a two percent per year increase in rented space at the old Shodair Children's Hospital per the agency's recently negotiated contract. The total increase is \$6,609 in fiscal 2004 and \$10,655 in fiscal 2005 of which \$953 and \$1,443 in each year of the biennium is allocated to the Central Management Program.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6800 - HB 13 - Pay Plan 01	0.00	0	3,336	0	3,336	0.00	0	14,042	0	14,042
Total	0.00	\$0	\$3,336	\$0	\$3,336	0.00	\$0	\$14,042	\$0	\$14,042

New Proposals

DP 6800 - HB 13 - Pay Plan - The legislature passed a pay plan in HB 13 that provides an additional \$44 per month in insurance contributions in calendar 2004 and an additional \$50 per month in calendar 2005, as well as a \$0.25 per hour salary increase in the final six months of fiscal 2005. These amounts represent this program's allocation of costs to fund this pay plan. An additional \$44 per month in insurance contribution for the first six months of fiscal 2004 was not funded.

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Leg. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Leg. Budget Fiscal 2005	Total Leg. Budget Fiscal 04-05
FTE	47.50	1.00	0.00	48.50	1.00	0.00	48.50	48.50
Personal Services	1,967,501	215,922	15,469	2,198,892	213,953	66,116	2,247,570	4,446,462
Operating Expenses	566,962	164,048	0	731,010	248,419	0	815,381	1,546,391
Equipment	0	0	0	0	0	0	0	0
Transfers	0	0	700,963	700,963	0	659,600	659,600	1,360,563
Total Costs	\$2,534,463	\$379,970	\$716,432	\$3,630,865	\$462,372	\$725,716	\$3,722,551	\$7,353,416
State/Other Special	2,534,463	379,970	716,432	3,630,865	462,372	725,716	3,722,551	7,353,416
Total Funds	\$2,534,463	\$379,970	\$716,432	\$3,630,865	\$462,372	\$725,716	\$3,722,551	\$7,353,416

Program Description

The Insurance Division regulates the insurance industry in Montana. The Policyholder Services Bureau resolves insurance consumer inquiries and complaints involving agents, coverage, and companies. The Examinations Bureau monitors the financial solvency of insurance companies, collects premium taxes and company fees, and audits insurance company annual statements. The Rates and Forms Bureau reviews form filings and rate filings to ensure compliance with the applicable insurance code. The Licensing Bureau licenses and provides continuing education to insurance agents, agencies, and adjusters. The Investigations Bureau investigates insurance code and rule violations, including possible criminal violations, and refers cases to county attorneys for prosecution.

Program Narrative

State Auditor's Office Insurance Major Budget Highlights
<ul style="list-style-type: none"> ○ Almost \$1.4 million is added from tobacco settlement trust proceeds for the MCHA ○ Includes a \$400,000 increase over the biennium in statewide present law adjustments for annualization of the pay plan and a higher proportion of fixed costs charged to this program ○ Other increases of about \$524,500 are attributed to an additional 1.00 FTE captive insurance examiner, funding for contract insurance examinations, a rent increase, and funding for the HB 13 pay plan

Funding

This program is funded from the insurance fee account, which draws its revenue from a percentage charge against every insurance policy sold in the state, as well as from charges for insurance company examinations and fees paid by individual agents.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					258,506					256,610
Vacancy Savings					(89,038)					(88,968)
Inflation/Deflation					3,819					4,309
Fixed Costs					36,440					17,776
Total Statewide Present Law Adjustments					\$209,727					\$189,727
DP 4 - Captive Insurance FTE	1.00	0	58,479	0	58,479	1.00	0	54,061	0	54,061
DP 6 - Contract Insurance Examinations	0.00	0	107,287	0	107,287	0.00	0	211,287	0	211,287
DP 10 - Rent Increase	0.00	0	4,477	0	4,477	0.00	0	7,297	0	7,297
Total Other Present Law Adjustments	1.00	\$0	\$170,243	\$0	\$170,243	1.00	\$0	\$272,645	\$0	\$272,645
Grand Total All Present Law Adjustments					\$379,970					\$462,372

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 4 - Captive Insurance FTE - The legislature authorized funding for 1.00 FTE, Grade 15, insurance examiner to approve the applications of prospective captives and conduct the examinations of captive insurance companies licensed in Montana.

DP 6 - Contract Insurance Examinations - The legislature increased state special revenue funds by \$107,287 in fiscal 2004 and \$211,287 in fiscal 2005 to conduct insurance contract examinations including market conduct examinations. Total funding for contract insurance exams is \$498,000 over the biennium and is designated as a restricted appropriation.

DP 10 - Rent Increase - The legislature approved state special revenue funding to cover a two percent per year increase in rented space at the old Shodair Children's Hospital per the agency's recently negotiated contract. The total increase is \$6,609 in fiscal 2004 and \$10,655 in fiscal 2005 of which \$4,477 and \$7,297 in each year of the biennium is allocated to the Insurance Program.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6800 - HB 13 - Pay Plan										
03	0.00	0	15,469	0	15,469	0.00	0	66,116	0	66,116
DP 9201 - MT Comprehensive Health Association (Restricted)										
03	0.00	0	700,963	0	700,963	0.00	0	659,600	0	659,600
Total	0.00	\$0	\$716,432	\$0	\$716,432	0.00	\$0	\$725,716	\$0	\$725,716

New Proposals

DP 6800 - HB 13 - Pay Plan - The legislature passed a pay plan in HB 13 that provides an additional \$44 per month in insurance contributions in calendar 2004 and an additional \$50 per month in calendar 2005, as well as a \$0.25 per hour salary increase in the final six months of fiscal 2005. These amounts represent this program's allocation of costs to fund this pay plan. An additional \$44 per month in insurance contribution for the first six months of fiscal 2004 was not

funded.

DP 9201 - MT Comprehensive Health Association (Restricted) - The legislature added \$1,360,563 state special revenue from tobacco settlement proceeds allocated by I-146, to fund the Montana Comprehensive Health Association.

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Leg. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Leg. Budget Fiscal 2005	Total Leg. Budget Fiscal 04-05
FTE	12.00	1.00	0.00	13.00	1.00	0.00	13.00	13.00
Personal Services	406,092	118,288	4,246	528,626	117,264	17,938	541,294	1,069,920
Operating Expenses	114,130	78,108	0	192,238	72,162	0	186,292	378,530
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$520,222	\$196,396	\$4,246	\$720,864	\$189,426	\$17,938	\$727,586	\$1,448,450
General Fund	334,795	45,719	(380,514)	0	43,490	(378,285)	0	0
State/Other Special	185,427	150,677	384,760	720,864	145,936	396,223	727,586	1,448,450
Total Funds	\$520,222	\$196,396	\$4,246	\$720,864	\$189,426	\$17,938	\$727,586	\$1,448,450

Program Description

The Securities Division administers and enforces the Securities Act of Montana, which includes registering securities issuers, salespeople, broker-dealers, investment advisers, and investment adviser representatives. The division is also responsible for investigating unregistered and fraudulent securities transactions, and has sole jurisdiction for investment advisor firms with assets of under \$25 million. The division investigates securities code and rule violations, including possible criminal violations, and refers cases to county attorneys for prosecution.

Program Narrative

State Auditor's Office Securities Major Budget Highlights
<ul style="list-style-type: none"> ○ Funding increases \$408,000 over base year expenditures ○ Increases are attributed to statewide present law adjustments, the addition of 1.00 FTE securities analyst, an increase in security contract examinations, a rent increase, and the HB 13 pay plan ○ August 2002 Special Session reductions of \$9,000 over the biennium are continued ○ A funding switch eliminates general fund within the program and agency, although there is no net change to the general fund as general fund revenue is decreased by a like amount

Funding

This program is funded with state special revenue from the securities fee account, which draws its revenue from securities portfolio registration fees charged to investment advisors and investment companies. Unspent collections are deposited to the general fund and were approximately \$2.2 million in fiscal 2002. Collections are anticipated to increase due to a change in filing requirements by the State Auditor's Office.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					99,163					98,232
Vacancy Savings					(20,210)					(20,175)
Inflation/Deflation					384					567
Fixed Costs					(8,453)					(11,043)
Total Statewide Present Law Adjustments					\$70,884					\$67,581
DP 2 - Securities Examiner/Analyst	1.00	0	50,229	0	50,229	1.00	0	45,826	0	45,826
DP 7 - Securities Contract Examinations	0.00	0	78,626	0	78,626	0.00	0	78,626	0	78,626
DP 8 - Special Session Reductions	0.00	0	(4,522)	0	(4,522)	0.00	0	(4,522)	0	(4,522)
DP 10 - Rent Increase	0.00	0	1,179	0	1,179	0.00	0	1,915	0	1,915
Total Other Present Law Adjustments	1.00	\$0	\$125,512	\$0	\$125,512	1.00	\$0	\$121,845	\$0	\$121,845
Grand Total All Present Law Adjustments					\$196,396					\$189,426

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 2 - Securities Examiner/Analyst - The legislature authorized funding for 1.00 FTE, grade 14, securities analyst to address the increase in both the number of issuers filing with the department and the number of individuals registered to sell as broker dealer agents.

DP 7 - Securities Contract Examinations - The legislature increased state special revenue funds by \$78,626 per year to conduct securities contract examinations for the new biennium. The expenses will be offset by examination cost reimbursements from investment companies. Total funding for contract securities exams is \$179,230 over the biennium and is designated as a restricted appropriation. The approved funding is based upon the examination schedule for the 2005 biennium.

DP 8 - Special Session Reductions - The legislature continued August 2002 Special Session reductions of \$4,522 per year of state special revenue.

DP 10 - Rent Increase - The legislature approved state special revenue funding to cover a two percent per year increase in rented space at the old Shodair Children's Hospital per the agency's recently negotiated contract. The total increase is \$6,609 in fiscal 2004 and \$10,655 in fiscal 2005 of which \$1,179 and \$1,915 in each year of the biennium is allocated to the Securities Program.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - Securities Program Funding Switch										
04	0.00	(380,514)	380,514	0	0	0.00	(378,285)	378,285	0	0
DP 6800 - HB 13 - Pay Plan										
04	0.00	0	4,246	0	4,246	0.00	0	17,938	0	17,938
Total	0.00	(\$380,514)	\$384,760	\$0	\$4,246	0.00	(\$378,285)	\$396,223	\$0	\$17,938

New Proposals

DP 1 - Securities Program Funding Switch - The legislature approved a funding switch that eliminates the general fund appropriation for the securities program and funds the entire program with state special revenue collected from portfolio revenue. The fund switch has a net impact of zero on the general fund because revenue in excess of the appropriation is deposited into the general fund; therefore, general fund deposits are reduced by a like amount.

DP 6800 - HB 13 - Pay Plan - The legislature passed a pay plan in HB 13 that provides an additional \$44 per month in insurance contributions in calendar 2004 and an additional \$50 per month in calendar 2005, as well as a \$0.25 per hour salary increase in the final six months of fiscal 2005. These amounts represent this program's allocation of costs to fund this pay plan. An additional \$44 per month in insurance contribution for the first six months of fiscal 2004 was not funded.